

REPORT ON EXAMINATION

OF THE

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

AS OF

DECEMBER 31, 2004

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2004 of the

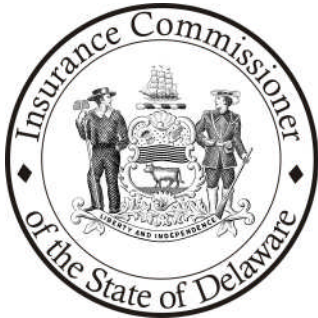
SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

is a true and correct copy of the document filed with this Department.

ATTEST BY:

Antoinette Handy

DATE: 19 JUNE 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 19TH DAY OF JUNE 2006.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)
AS OF
December 31, 2004

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 19TH Day of JUNE 2006.

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April 25, 2006

Honorable Alfred Gross
Chairman, Financial Condition (E)
Committee, NAIC
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Commonwealth of Virginia
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2100 Stella Court
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Honorable Gary Smith
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Department of Insurance
State of Idaho
700 West State Street, 3rd Floor
Boise, Idaho 83720

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Blvd.
Dover, DE 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 05.010, dated March 3, 2005, an association examination has been made of the affairs, financial condition and management of the

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company, located at One Sun Life Executive Park, Wellesley Hills, Massachusetts.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2001. This examination covered the period from January 1, 2002 through December 31, 2004, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

- Corporate Records
- Officers, Employees and Agents' Welfare
- Conflict of Interest
- Regulatory Agency Correspondence
- Legal Actions

The 2004 examination was conducted by the Delaware Insurance Department in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners. All qualifying NAIC Zones were invited but declined to participate.

HISTORY

The Company was incorporated on January 12, 1970 under the laws of the State of Delaware as a stock life insurance company having perpetual existence. Its original Delaware Certificate of Authority was issued on October 7, 1970 and authorized the Company to transact the business of life insurance and variable annuities. The Certificate of Authority was amended effective September 22, 1986 to include variable life insurance. The Company's registered office and its home office are located at the Corporation Trust Company 1209 Orange Street, Wilmington, DE 19801. The main administrative offices are located at One Sun Life Executive Park, Wellesley Hills, MA 02481.

On December 31, 2003, Keyport Life Insurance Company (Keyport) was merged with and into the Company with the Company as the surviving entity. Prior to the merger the Company and Keyport were both indirectly owned by an upstream holding company, Sun Life of Canada (U.S.) Holdings Inc. The Company's capital and surplus before the merger equaled \$722,148,205 and Keyport's capital and surplus before the merger equaled \$734,574,305 bringing the total of merged entities capital and surplus to \$1,456,722,510 as of December 31, 2003.

The Company has established registered separate accounts as investment vehicles for the variable portion of individual and group qualified and non-qualified combination Fixed/Variable Deferred Annuity contracts and Variable Life insurance contracts. The Company has also established a non-unitized separate account for amounts allocated to the fixed portion of these combination contracts. In addition, the Company established non-registered separate accounts as investment vehicles for group pension contracts.

Separate Accounts as of December 31, 2004

Number of Accounts	Type of Separate Account	Description	Investment Vehicles
6	Registered	Managed Separate Accounts registered as open-end management investment companies under the Investment Company Act of 1940 (mutual funds)	Various securities based upon the investment objectives of the different funds.
2	Non-Registered	Separate accounts used for private placement and Business Owned Life Insurance (BOLI) business	Various securities based upon the investment objectives of the different funds.
1	Non-Registered	Managed Separate Account	Various securities based upon the investment objectives of the different funds.
1	Registered	Unit Investment Trust	Certain publicly available mutual funds advised by Massachusetts Financial Services Company (MFS), a wholly owned subsidiary.
3	Registered	Unit Investment Trusts	MFS/Sun Life Series Trust (Series Fund), a mutual fund established by the Company in 1983 ^① as well as various Variable Investment Trusts managed by unaffiliated investment advisors
1	Registered	Unit Investment Trust	MFS Variable Insurance Trust, advised by, a wholly owned subsidiary of the Company, as well as various Variable Investment Trusts managed by unaffiliated investment advisors
2	Registered	Unit Investment Trust	Various Variable Investment Trusts managed by unaffiliated investment advisors
1	Registered	Unit Investment Trust	Both the Series Fund and certain publicly available mutual funds advised by MFS
1	Non-Registered	Unitized Separate Account	Both the Series Fund and certain mutual funds managed by unaffiliated investment advisers
1	Non-Registered	Separate Account used for Modified Guaranteed Annuity Contracts	Various securities mirroring the General Account portfolio
1	Registered	Unit Investment Trust	MFS/Sun Life Series Trust (Series Fund)

① The Series Fund currently is composed of twenty-eight (28) independent initial class funds and (28) service class funds of securities each of which has separate investment objectives and policies. Not all series are available for investment by all separate accounts

MANAGEMENT AND CONTROL

The Company's bylaws, adopted January 23, 1970 and most recently amended March 22, 2004, state that the business and affairs shall be managed by a Board of Directors consisting of not less than three Directors. The Directors shall be elected at the annual meeting of the stockholders and shall hold office until a successor is elected and qualified. It is not necessary for the Directors to be stockholders.

The following individuals who were members of the Board of Directors as of December 31, 2004 were elected to the board either by unanimous vote of the Stockholders on March 19, 2004 or appointed by the Board to fill vacancies occurring later that year.

Thomas A. Bogart	Mary M. Fay
Gary Corsi	C. James Prieur, Chairman
Scott M. Davis	Robert C. Salipante
Paul W. Derksen	Donald A. Stewart

The by-laws, as amended, state that the Officers of the Company shall include a President, a Secretary and a Treasurer. The Board of Directors may also appoint a Chairman, one or more Vice Presidents, and such other officers as are from time to time desired. The following individuals, who were key officers as of December 31, 2004, were elected by unanimous vote of the Board of Directors as officers of the Company:

Robert C. Salipante	President
Gary Corsi	Vice President and Chief Financial Officer and Treasurer
Ellen B. King	Assistant Vice President and Senior Counsel and Secretary
James M.A. Anderson	Vice President, Investments
Janet V. Whitehouse	Vice President, Human Resources and Public Relations
Claude A. Accum	Vice President, Individual Insurance
Mary M. Fay	Vice President, Annuities
Scott M. Davis	Vice President and General Counsel
Keith Gubbay	Vice President and Chief Actuary
John R. Wright	Vice President, Sun Life Financial U.S. Operations

Sun Life Assurance Company of Canada (U.S.)

The Company has complied with Section 4919 of the Delaware Insurance Code, by providing written notification to the Insurance Commissioner of the State of Delaware concerning changes of Directors and Officers within the Company.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is the Sun Life Financial, Inc., a Canadian domiciled Holding Company.

The holding company group has undergone extensive reorganization during the period under review. The proper filings have been made regarding the reorganizing transactions to the Department. The organization chart containing those entities that are directly related to the Company as of December 31, 2004 is shown in the table at the end of this section.

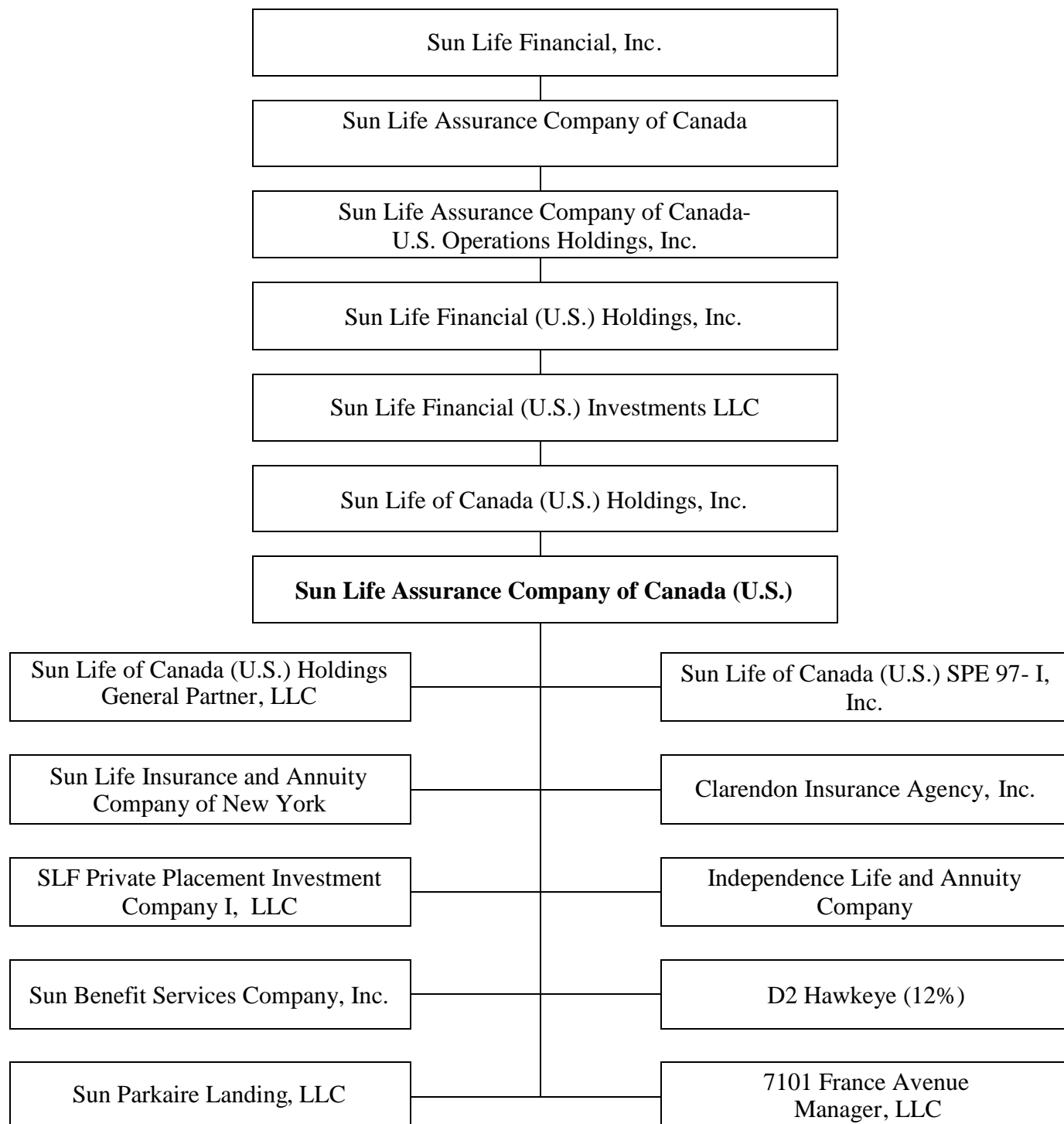
In 2003 and 2004, the Company purchased a total of \$140 million in promissory notes from Massachusetts Financial Services, Inc, an affiliate. These notes are recorded as investments in affiliate bonds.

The Company has maintained \$565 million in surplus notes issued to Sun Life Financial (U.S.) Finance, Inc., an affiliate of the Company.

The Company reports borrowed money as of December 31, 2004 in the form of two promissory notes totaling \$460 million. These promissory notes are issued by the Company to Sun Life (Hungary) Group Financing Limited Liability Company.

The following is an organizational chart, which reflects the identities and interrelationships between the Company, its ultimate parent, and its direct upstream and downstream affiliates as of December 31, 2004:

Sun Life Assurance Company of Canada (U.S.)



Sun Life Assurance Company of Canada (U.S.)

Copies of the Form B Holding Company Registration Statements filed with the Delaware Insurance Department, during the period under examination, were reviewed. It appears that the Company has complied with the provisions of Regulation 13 of the Delaware Insurance Code.

TERRITORY AND PLAN OF OPERATION

Territory:

As of December 31, 2004, the Company was licensed in forty-nine (49) states, the District of Columbia, the United States Virgin Islands and Puerto Rico. The Company is not licensed in New York. The Company has a wholly owned subsidiary, Sun Life Insurance and Annuity Company of New York, which is licensed to write business exclusively in the States of New York and Rhode Island.

Plan of Operation:

During the examination period, the Company engaged in the sale of individual and group fixed and variable annuities, individual and group variable life insurance, and funding agreements. Annuity considerations accounted for approximately 87% of the Company's direct written business in 2004. The remaining 13% of its business consisted primarily of life insurance premiums.

Effective January 1, 2002, the Company became the employer of record for most of the U.S. affiliates within the Sun Life Financial insurance holding company system. It provides services to these affiliates pursuant to inter-company services agreements. The Company also receives certain services pursuant to agreements with U.S. and foreign affiliates.

Annuities:

The Company's variable annuity products are sold by licensed insurance agents who are registered representatives of broker/dealers that are members of the National Association of Securities Dealers ("NASD"). The broker/dealer firms enter into distribution agreements with the Company and its general distributor, Clarendon Insurance Agency, Inc., an NASD registered broker/dealer, and a wholly owned subsidiary of the Company. Fixed annuities are sold by insurance agents or registered representatives. The Company has no career agents of its own. It should be noted, though, that Independent Financial Marketing Group (IFMG), an affiliate of the Company, engages in retail insurance sales, among other business activities.

Annuity sales are presently supported by a wholesaling system provided primarily by Sun Life Financial Distributors (SLFD). SLFD's wholesaling support consists generally of wholesalers in the field who call on licensed insurance agents who may also be registered representatives of NASD registered broker/dealers. The individual field wholesalers cover various geographic territories. Inside wholesalers support the field wholesalers. In addition, the Company's National Account Representatives are responsible for developing relationships with the large national accounts, typically wire-house firms and banks.

During a portion of the examination period, annuity wholesaling support was also provided by (1) IFMG through its "Sun Life Financial Sales Division" business unit, and (2) Columbia Funds Distributors, Inc., formerly "Liberty Funds Distributors, Inc.," an independent distributor not affiliated with the Company.

Life Insurance:

Individual Products:

The Company contracts with general agents which may represent a number of carriers, including the Company. The representatives are either associated with a broker, dealer or bank, or they are independent. The Company has no direct employer-employee relationship with the producer, regardless of whether the producer is an independent producer, a member of a broker firm, or a member of a wire house.

Corporate Products:

Corporate products, principally corporate or bank owned life insurance (COLI, BOLI), are distributed through independent specialty producers who contract with the Company. Most producers are consultants in employee benefit consulting firms.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Total Liabilities</u>	<u>Total Capital and Surplus</u>	<u>Premiums and Annuity Considerations</u>	<u>Net Income</u>
2004	\$39,173,875,856	\$37,588,945,002	\$1,584,930,854	\$3,934,044,555	\$230,901,563
2003	37,126,122,895	35,669,400,385	1,456,722,510	2,922,383,338	206,097,596
2002	19,725,703,735	19,039,142,418	686,561,317	2,510,615,642	(131,012,397)
2001	20,940,450,299	20,170,930,325	769,519,974	3,048,178,351	(137,139,234)

Sun Life Assurance Company of Canada (U.S.)

It should be noted that the table above reflects consolidated information for the years 2003 and 2004. This consolidation results from the merger of Keyport with the Company effective December 31, 2003.

REINSURANCE

Following is a summarization of the various reinsurance contracts in place as of December 31, 2004.

Assumed

Two assumed coinsurance contracts were in-force as of December 31, 2004. Both were Keyport Life Insurance Company contracts assigned to the Company as a result of the merger at December 31, 2003. No significant balances were reported related to these assumed contracts.

Ceded

All contracts with effective dates occurring during the period under examination were reviewed. On a test basis, the financial reporting relating to selected material contracts were validated. All contracts included a proper insolvency clause. A number of contracts were assigned by way of the merger of Keyport Life Insurance Company into the Company effective December 31, 2003.

Affiliated:

Effective December 31, 2003, the Company ceded a block of single premium whole life policies under a 100% coinsurance agreement with its parent's Michigan branch, Sun Life Assurance Company of Canada (SLOC). This business was originally issued by Keyport Life Insurance Company. This contract accounted for 90% of the 2004 reserve credits taken for all

Sun Life Assurance Company of Canada (U.S.)

ceded reinsurance. The contract is administered on a funds held basis. The Company has three other affiliated contracts that are in run-off and are not considered material.

The Company reports its reinsurance based on business segments. The segments are listed below and a discussion of each follows.

Individual Non-Corporate Owned Life Insurance (COLI)
Individual COLI
Annuities

Individual, Non-COLI:

The reinsurance program for this segment is a first dollar, quota share pool, automatic yearly renewal term reinsurance. The program cedes the net amount at risk for the unit's VUL policies. The Company's retention is 10% and they ceded 90%. Retention availability on life insurance issued by the Company will be combined with life insurance on United States risks issued by its parent, Sun Life Assurance Company of Canada (SLOC). The Company does have other reinsurance agreements in place that are in run-off and are not considered material.

Individual COLI:

The reinsurance program for this segment is a first dollar quota share pool, automatic yearly renewal term reinsurance agreement. The program cedes the net amount at risk for the unit's Corporate and Large Case Variable Universal Life (VUL) and Private Placement VUL products. Company's retention is 20%/15% depending on product and they cede 80%/85%. The Company does have other reinsurance agreements in place that are in run-off and are not considered material.

One of the contracts reported in the December 31, 2004, Schedule S, Part 3 of the Annual Statement, with an effective date of April 2004 was not executed prior to close of 2004. The

Sun Life Assurance Company of Canada (U.S.)

impact of reducing the reinsurance credit for this agreement is not considered material and no financial changes will be made for the purposes of this examination.

It is recommended that the Company comply with Title 18, Delaware Administrative Code 1001, sections 5.1 and 5.2 that require timely execution of the reinsurance Agreements.

In the individual reinsurance operations, the Company reported five reinsurance contracts with incorrect effective dates. The Company appeared to use amendment dates in error.

It is recommended that the Company ensure that all future annual statement Schedule S presentations are prepared per the annual statement instructions regarding effective dates of reinsurance contracts in accordance with Delaware Insurance Laws, Section 526.

Annuities:

The Company has a number of contracts in place for its annuity business. These contracts are in run-off and are material. These contracts were assigned as part of the December 31, 2003 merger with Keyport Life Insurance Company. One contract with significant reserve credits was a quota share agreement on certain fixed annuity five year products. The contract is currently in run-off.

The Company has a 100% quota share yearly renewal term agreement for the excess of guaranteed minimum death benefit (GMDB) over account value protection on its variable annuity products. This is a catastrophic type of coverage on GMDB exposures. There is a negative reserve credit of \$23.7 million reflected in the Company's December 31, 2004 Annual Statement, Schedule S, Part 3. The credit is reported because the Company has projected underlying premiums that will exceed the expected reserves requirement. The consulting actuary reviewed the negative reserve credit and concluded that it is appropriate.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on an Insurance Company Blanket Bond, issued in the name of its Parent. The \$ 50,000,000 limit of liability for the bond coverage, as of the examination date, was within the NAIC established guidelines. Insuring agreements included employees, agents, servicing contractors, financial documents, computer/funds transfer, extortion persons/property, fraudulent signature and theft by deception.

A review was also conducted of all other insurance policies covering the Company, its property and employees. The Company appears to carry adequate insurance coverage for these risks. The types of policies held are consistent with those that would be expected for a life insurance organization of similar size.

ACCOUNTS AND RECORDS

The reconciliation of the General Ledger Trial Balance to the Annual Statement for the year 2004 was complicated. The Company's reconciliation worksheets list numerous manual adjustments and reclassifications.

A review was conducted of the various expense allocation agreements with affiliates. While it appears that expenses have been allocated among affiliates in a fair and equitable manner, it was noted that the Company was not following the settlement provisions of the agreements in place with affiliates as of December 31, 2004. Although settlement eventually occurs, it is not done in accordance with the provisions contained in the agreements. This exception was noted during the prior three examinations and has not been completely addressed. Therefore,

It is again recommended the Company comply with the timing requirements for settlement in its intercompany service agreements.

It should be noted that the Company has amended its inter-company agreements effective in 2006 to add the requirement of a 30 day settlement. The new settlement process now coincides with the Company's month-end closing process. The Company provided copies of the Holding Company Filings to the Delaware Insurance Department to support the planned amendments.

It was noted that the Company's agreement with a custodian did not include an indemnity clause and NAIC recommended safeguarding language for replacement of securities.

It is recommended that the Company amend its custody agreement with its custodian to include the necessary indemnification and replacement clauses in accordance with the NAIC Guidance and Delaware Law Title 18, Section 318.

A review of the Company's information system environment was performed by a consulting specialist, INS Services, Inc. The report of the consultant's findings was provided directly to the Delaware Insurance Department. The findings were reviewed and the Company has responded to the findings and has agreed to content of the report. The findings were reviewed and no information was identified for disclosure in this report. The general condition of the information systems appears to provide adequate controls for the accumulation and processing of data.

A review of the Company's derivative investments was performed by a consulting investment specialist, Kawaller & Company, LLC. The specialist's review was focused on the Company's hedging program and its use of derivative investments. The review was coordinated

with the consulting actuarial review and the procedures performed by the examination team. The specialist aided in the preparation of the procedures performed to confirm the derivative program's function and operation. It was concluded that the Company uses derivatives for hedging or replication purposes only and that there was no evidence noted of speculative derivative investments.

The following is a discussion of the major derivative investment and their use by the Company. Interest rate swaps are used for duration matching purposes. Currency and equity swaps are used to hedge the Company's medium term note program. Options are used to hedge the equity exposure portion of the insurance contracts sold by the Company. Futures are used to hedge the equity exposures contained in the indexed annuity products sold by the Company. Currency forwards are used to hedge foreign exchange fluctuations exposures.

An actuarial consulting firm, INS Consultants, Inc., was retained to provide an opinion on the adequacy and presentation of the Company's reserves. A further discussion can be found in the "Notes to the Financial Statement" section related to reserve related balances.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2004.

General Account:

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account

Separate Account:

Analysis of Assets
Liabilities, Surplus and Other Funds

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. The narratives on the individual accounts, with the exception of the reserve related balances, are presented on the “exception basis” in the Notes to the Financial Statements section of this report.

Sun Life Assurance Company of Canada (U.S.)

Analysis of Assets
As of December 31, 2004

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$13,963,302,971		\$13,963,302,971	
Preferred Stock	1,000,006		1,000,006	1
Common stocks	321,075,639		321,075,639	
Mortgage loans on real estate	1,054,312,255	\$192,828	1,054,119,427	
Real estate occupied	61,880,970		61,880,970	
Real estate acquired in satisfaction of debt	75,312,075		75,312,075	
Cash and short-term investments	344,164,387		344,164,387	
Contract loans	657,611,114	9,049	657,602,065	
Other invested assets	336,885,449		336,885,449	2
Receivable from securities	16,368,648		16,368,648	
Aggregate write-in for invested assets	520,064,467		520,064,467	
Investment income due and accrued	210,128,849		210,128,849	
Amounts recoverable from reinsurers	485,533		485,533	
Other amounts receivable under reinsurance contracts	1,035,000		1,035,000	
Net deferred tax asset	353,876,279	235,375,405	118,500,874	
Electronic data equipment	464,538	464,538	0	
Furniture and equipment	6,335,503	6,335,503	0	
Receivable from parent subsidiary and affiliates	17,342,722		17,342,722	
Other assets nonadmitted	7,442,217	7,442,217	0	
Aggregate write-in for other than invested assets	54,143,099	49,963,203	4,179,896	
Total assets excluding Separate Accounts	<u>\$18,003,231,721</u>	<u>\$299,782,743</u>	<u>\$17,703,448,978</u>	
From Separate Accounts Statement	<u>21,470,426,878</u>		<u>21,470,426,878</u>	
Total Assets	<u>\$39,473,658,599</u>	<u>\$299,782,743</u>	<u>\$39,173,875,856</u>	

Sun Life Assurance Company of Canada (U.S.)

Liabilities, Surplus And Other Funds
As Of December 31, 2004

		<u>Note</u>
Aggregate reserve for life policies and contracts	\$11,278,690,924	3
Liability for deposit-type contracts	2,255,890,684	4
Contract claims - life	11,639,853	5
Interest maintenance reserve	131,386,637	
Commissions to agents due or accrued	3,985,861	
General expenses due or accrued	78,472,402	
Transfers to Separate Accounts due or accrued (net)	(325,288,192)	6
Taxes, licenses and fees due or accrued	17,532,571	
Federal income taxes due or accrued	19,892,563	
Amounts withheld or retained by Company as agent or trustee	1,003,671	
Amounts held for agents account	37,539	
Remittances and items not allocated	21,956,629	
Liability for benefits for employees and agents	2,002,885	
Borrowed money	460,000,000	
Miscellaneous liabilities:		
Asset valuation reserve	202,740,684	
Reinsurance in unauthorized companies	6,071	
Funds held under coinsurance	1,712,950,916	
Payable for securities	222,559,509	
Aggregate write-in for liabilities	48,421,024	
Total liabilities excluding Separate Accounts business	<u>\$16,143,882,231</u>	
From Separate Accounts Statement	<u>\$21,445,062,771</u>	
Total Liabilities	<u>\$37,588,945,002</u>	
Common capital stock	6,437,000	
Surplus notes	565,000,000	
Gross paid in and contributed surplus	689,418,665	
Unassigned funds (surplus)	<u>324,075,189</u>	
Total Surplus	<u>\$1,584,930,854</u>	
Total Capital and Surplus	<u>\$1,591,367,854</u>	
Total Liabilities, Capital and Surplus	<u><u>\$39,180,312,856</u></u>	

Sun Life Assurance Company of Canada (U.S.)

Summary Of Operations
For The Period Ended December 31, 2004

Premiums and annuity considerations	\$3,934,044,555
contingencies	6,031,596
Net investment income	720,685,696
Amortization of interest maintenance reserve	30,584,998
Separate Accounts net gain from operations	37,306
Commission and expense allowances of reinsurance ceded	323,641
Income from fees associated with investment management	294,124,579
Miscellaneous income	70,193,483
Totals	<u>\$5,056,025,854</u>
Death benefits	\$12,819,013
Annuity benefits	479,741,646
Surrender benefits and other fund withdrawals	3,371,812,911
Interest on policy or contract funds	13,096,258
Payments on supplementary contract with life contingencies	28,965,422
Increase in aggregate reserves for life contracts	760,402,513
Commissions on premiums and annuity considerations	338,889,613
Commissions and expense allowances on reinsurance assumed	257,064
General insurance expenses	154,503,376
Insurance taxes, licenses and fees	13,432,491
Net transfers to or (from) Separate Accounts	(292,195,262)
Aggregate write-ins for deductions	490,455
Totals	<u>\$4,882,215,500</u>
Net gain from operations after dividends to policyholders and before federal income taxes	<u>\$173,810,354.00</u>
Federal income taxes incurred	<u>(\$32,485,947.00)</u>
federal income taxes and before realized capital gains or (losses)	<u>\$206,296,301.00</u>
Net realized capital gains or (losses) less capital gains tax transferred to the IMR	24,605,262
Net Income	<u><u>\$230,901,563</u></u>

Sun Life Assurance Company of Canada (U.S.)

Capital And Surplus Account
December 31, 2003 To December 31, 2004

Capital and Surplus, December 31, 2003	<u>\$1,456,722,510</u>
Net income	230,901,563
Change in net unrealized capital gains or (losses)	(34,287,704)
Change in net unrealized foreign exchange gains or (losses)	(1,391,576)
Change in net deferred income tax	(82,746,327)
Change in nonadmitted assets and related items	93,663,335
Change in liability for reinsurance in unauthorized companies	(489)
Change in asset valuation reserve	(12,660,944)
Surplus (contributed to) withdrawn from Separate Account	(3,000)
Other changes in separate account statement	1,905,947
Surplus adjustment - Paid in	60,000,000
Dividends to stockholders	(156,097,418)
Aggregate write-in for gains and losses in surplus	<u>28,924,957</u>
Net change in capital and surplus for the year	<u>\$128,208,344</u>
Capital and Surplus, December 31, 2004	<u><u>\$1,584,930,854</u></u>

SEPARATE ACCOUNTS

Analysis of Assets As of December 31, 2004

	<u>Gen. Act. Basis</u>	<u>Fair Value Basis</u>	<u>Total Assets</u>	<u>Note</u>
Bonds		\$5,201,339,520	\$5,201,339,520	
Preferred stocks		296,581	296,581	
Common stocks		14,886,881,700	14,886,881,700	
Mortgage loans on real estate:		301,520,445	301,520,445	
Real estate held for sale		627,750	627,750	
Cash	\$20,327,648	327,467,815	347,795,463	
Short-term investments		182,356,384	182,356,384	
Other invested assets	58,815,558		58,815,558	
Investment income due and accrued		42,186,106	42,186,106	
Receivable for securities		409,935,574	409,935,574	
Aggregate write-ins for other than invested assets		38,671,797	38,671,797	
Total Assets	<u>\$79,143,206</u>	<u>\$21,391,283,672</u>	<u>\$21,470,426,878</u>	

Liabilities, Surplus and Other Funds As of December 31, 2004

Aggregate Reserve for Life and Annuity Contracts and Policies		\$19,855,102,185	\$19,855,102,185	7
Liability for deposit-type contracts	\$77,163,384	231,955,881	309,119,265	8
Investment expenses due or accrued		324,451	324,451	
Unearned investment income		7,637	7,637	
Other transfers to general account due or accrued	1,900,735	323,387,457	325,288,192	
Payable for securities	79,087	940,763,999	940,843,086	
Aggregate write-in for liabilities		14,377,955	14,377,955	
Total Liabilities	<u>\$79,143,206</u>	<u>\$21,365,919,565</u>	<u>\$21,445,062,771</u>	
Contributed surplus		3,470,742	3,470,742	
Unassigned funds		21,893,365	21,893,365	
Surplus		\$25,364,107.00	\$25,364,107.00	
Total Liabilities and Surplus	<u>\$79,143,206</u>	<u>\$21,391,283,672</u>	<u>\$21,470,426,878</u>	

Schedule of Examination Adjustments

There were no financial adjustments made in either the General Accounts or Separate Accounts as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

General Account:

Note 1

<u>Preferred Stock</u>	<u>\$1,000,006</u>
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The Company reported the value of its investment in a private issue preferred stock on a market value basis which is not permitted by SSAP 32, the NAIC SVO and Delaware Law, Title 18, Section 526. A financial statement correction for the misstatement was not made because the resulting change is not material.

It is recommended that the Company report the value of its investment in a private issue preferred stock in accordance with the SSAP 32 and the NAIC SVO rating as required by Delaware Law, Title 18, Section 526.

Note 2

<u>Other Invested Assets</u>	<u>\$336,885,449</u>
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It was noted that the Company reported limited partnership investment in leases with a valuation on a basis that is not permitted by SSAP 48. The resulting financial statement change for the proper valuation would not be material and no financial changes were made.

It is recommended that the Company record its investments in Joint Ventures, Partnerships and Limited Liability Companies in accordance with SSAP 48 and Delaware Law, Title 18, Section 526.

Note 3

Aggregate Reserve for Life Policies and Contracts

\$11,278,690,924

The above captioned amount, which is the same as that reported by the Company in its 2004 Annual Statement, represents the net liability at December 31, 2004, for contractual obligations under life policies and contracts written directly by the Company.

This liability was comprised of the following components:

<u>Category</u>	<u>Ordinary</u>	<u>Group</u>	<u>Total</u>
Life Insurance	\$ 1,994,461,126	0	\$ 1,994,461,126
Annuities	10,025,204,217	\$ 795,065,357	10,820,269,574
Supplementary Contracts	90,039,589	0	90,039,589
Guaranteed Minimum			
Death Benefits	35,837,244	189,776,490	225,613,734
Other	3,575,170	0	3,575,170
Totals (Gross)	\$ 12,149,117,346	\$ 984,841,847	\$13,133,959,193
Reinsurance Ceded	1,874,225,257	(18,956,988)	1,855,268,269
Totals (Net)	<u>\$ 10,274,892,089</u>	<u>\$1,003,798,835</u>	<u>\$11,278,690,924</u>

An analysis of the individual components comprising this liability was performed by the consulting actuarial firm. The analysis included a review of various supporting documentation prepared by the Company, actuarial analyses, and a review of the Company's reserving methodologies as of December 31, 2004,

The business consists primarily of single premium whole life, universal life, single premium variable life, corporate owned variable universal life insurance, private placement variable universal life, fixed and variable deferred annuities.

The actuarial examination process consisted of a review of the Company's Actuarial Opinion and Memorandum (AOM). Cash flow testing was performed for each of the major business segments within the general account and for market value adjusted annuities held in the

Sun Life Assurance Company of Canada (U.S.)

non-unitized separate account. Asset adequacy testing was completed for individual participating life insurance business assumed by the Company from the Parent. The consulting examination actuary applied sensitivity testing to individual deferred annuities in the unitized separate account.

The examination process also consisted of a verification of the underlying data used to calculate the reserves. Samples of randomly selected policies from the Company's business were used to test the validity of valuation data. Inclusion testing was also performed in order to gain confidence that the valuation extract files are essentially complete. The policy sample tests indicate a general absence of errors in the underlying data used for valuation. The inclusion testing indicated that the valuation extract files are complete.

Based on the procedures performed, it appears that the Company's reserves at December 31, 2004 were adequate to meet its future contractual obligations under its policies and contracts. Therefore, the Company's reported liability has been accepted for use in this report.

Note 4

Liability for Deposit-type Contracts

\$ 2,255,890,684

The above captioned amount, which is the same as that reported by the Company in its 2004 Annual Statement, represents the net liability at December 31, 2004, for contractual obligations under deposit-type contracts written directly by the Company. The business consists primarily of European Mid-Term Notes, guaranteed interest contracts, fixed and variable payout annuities and lottery annuities. Payout annuities are comprised of immediate annuities and supplementary contracts without life contingencies.

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This liability was comprised of the following components:

<u>Category</u>	<u>Reserve</u>
Guaranteed interest contracts (GICs)	\$ 1,822,601,908
Annuities Certain	340,867,340
Supplementary Contract Not Involving Life Contingencies	107,086,899
Total (Gross)	<u>\$ 2,270,556,147</u>
Reinsurance Ceded	14,665,463
Total (Net)	<u>\$ 2,255,890,684</u>

The business consists primarily of European Mid-Term Notes, guaranteed interest contracts, fixed and variable payout annuities and lottery annuities. Payout annuities are comprised of immediate annuities and supplementary contracts without life contingencies.

The consulting actuary reviewed the Company's documentation and AOM information for this reserve. A sample of the documentation was selected and recalculation of the reserve was performed.

Based on the procedures performed, it appears that the Company's reserves at December 31, 2004, were adequate to meet its future contractual obligations under its policies and contracts. Therefore, the Company's reported liability has been accepted for use in this report.

Note 5

Contract Claims: Life

\$11,639,853

The above-captioned amount, which is the same as that reported by the Company in its 2004 Annual Statement, represents the net liability at December 31, 2004, for contractual obligations for contract claims arising for policies and contracts written directly by the Company.

This liability was comprised of the following components:

<u>Category</u>	<u>Liability</u>
Due and unpaid claims (Gross and Net)	\$ 1,295,313
Claims in course of settlement (Gross)	33,162,714
Reinsurance ceded	32,156,354
Claims in course of settlement (Net)	<u>\$ 1,006,360</u>
Claims incurred but unreported (Gross)	\$ 11,661,413
Reinsurance ceded	2,323,233
Claims incurred but unreported (Gross)	<u>\$ 9,338,180</u>
Total (Net)	<u>\$ 11,639,853</u>

A review of paid and outstanding claims reports, claims registers and claim files was made in order to determine if all life insurance claims incurred and reported prior to the examination date, were included in the December 31, 2004 claims liability. The consulting actuary performed a review of the incurred but unreported reserving methodology.

Based on the procedures performed, it appears that the Company's reserves at December 31, 2004 were adequate to meet its future contractual obligations under its policies and contracts. Therefore, the Company's reported liability has been accepted for use in this report.

Note 6

Transfers to Separate Accounts Due or Accrued (Net) \$(325,288,192)

The above-captioned amount, which is the same as that reported by the Company in its 2004 Annual Statement, represents the net balance at December 31, 2004, for transfers to separate account due or accrued.

This liability was comprised of the following components:

Sun Life Assurance Company of Canada (U.S.)

<u>Liability segment</u>	<u>Transfers</u>
Variable Universal Life (VUL)	(\$58,677,605)
Keyport Variable Annuities (VA, MVA)	(26,590,660)
Variable Deferred Annuities (VDA)	295,945,392
Single Premium Immediate Annuity (SPIA)	4,381,290
Total Expense Allowance	<u>\$215,058,418</u>
<u>Other transfers</u>	
Last working day accruals	\$4,637,630
Accrued Market Value Adjustment (MVA)	220,758
Accumulated Market Value Adjustment investment expenses	21,324,963
Accumulated Market Value Adjustment surplus	84,046,423
Total other transfers	<u>\$110,229,774</u>
Total	<u>\$325,288,192</u>

The difference between the December 31, 2004 separate account balances and separate account aggregate reserves for the VUL, VDA and SPIA segments was verified.

Based on the procedures performed, it appears that the Company's reserves at December 31, 2004 were adequate to meet its future contractual obligations under its policies and contracts. Therefore, the Company's reported liability has been accepted for use in this report.

Separate Accounts

Note 7

<u>Aggregate Reserve for Life and Annuity Contracts and Policies</u>	<u>\$19,855,102,185</u>
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The above-captioned amount, which is the same as that reported by the Company in its 2004 Annual Statement, represents the net liability at December 31, 2004, for contractual obligations under separate account life and annuity contracts and policies written directly by the Company.

Sun Life Assurance Company of Canada (U.S.)

This liability was comprised of the following components:

<u>Liability segment</u>	<u>Reserve</u>
Life insurance	\$ 3,626,872,263
Annuities	16,225,442,384
Supplementary contracts with life contingencies	2,787,538
Total	<u>\$19,855,102,185</u>

The primary risks associated with the variable life business are adverse mortality and insufficient expense charge revenues. The primary risks associated with the deferred annuity business involve adverse mortality, pricing inadequacies, asset default and interest rate volatility. The ability of these reserves to cover such risks was evaluated by asset adequacy and cash flow testing analysis.

Based on the procedures performed, it appears that the Company's reserves at December 31, 2004 were adequate to meet its future contractual obligations under its policies and contracts. Therefore, the Company's reported liability has been accepted for use in this report.

Note 8

Separate Accounts: Liability for Deposit type Contracts \$309,119,265

The above-captioned amount, which is the same as that reported by the Company in its 2004 Annual Statement, represents the net liability at December 31, 2004, for contractual obligations under separate accounts, deposit-type contracts written directly by the Company.

This liability was comprised of the following components:

Sun Life Assurance Company of Canada (U.S.)

<u>Liability segment</u>	<u>Reserve</u>
Guaranteed Interest Contracts (GIC)	\$ 39,525,226
Annuities Certain	80,180,936
Supplemental Contracts	112,249,719
Premium and Other Deposit Funds	77,163,384
Total	<u>\$ 309,119,265</u>

The consulting actuary reviewed the Company's documentation and AOM information for this reserve. A sample of the documentation was selected and recalculation of the reserve was performed.

Based on the procedures performed, it appears that the Company's reserves at December 31, 2004 were adequate to meet its future contractual obligations under its policies and contracts. Therefore, the Company's reported liability has been accepted for use in this report.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for which there was prior examination recommendations. All prior examination recommendations were either directly or indirectly addressed in the current examination.

It should be noted that there were 16 recommendations made in the prior examination report. It has been determined in the current examination that one of these have not been fully complied with.

SUMMARY OF RECOMMENDATIONS

Reinsurance

It is recommended that the Company comply with Title 18, Delaware Administrative Code 1001, sections 5.1 and 5.2 that require timely execution of reinsurance agreements. (Page 13)

It is recommended that the Company ensure all future annual statement Schedule S presentations are prepared per the annual statement instructions regarding effective dates of reinsurance contracts in accordance with Delaware Insurance Laws, Section 526. (Page 13)

Accounts and Records

It is again recommended the Company comply with the timing requirements for settlement in its intercompany service agreements. (Page 15)

It is recommended that the Company amend its custody agreement with its custodian to include the necessary indemnification and replacement clauses in accordance with the NAIC Guidance and Delaware Law Title 18, Section 318. (Page 15)

Preferred Stock

It is recommended that the Company report the value of its investment in all preferred stock in accordance with the SSAP 32 and the NAIC SVO rating as required by Delaware Law, Title 18, Section 526. (Page 23)

Other Invested Assets

It is recommended that the Company record its investments in Joint Ventures, Partnerships and Limited Liability Companies in accordance with SSAP 48 and Delaware Law, Title 18, Section 526. (Page 23)

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2004</u>	<u>December 31, 2001</u>	<u>Increase</u>
Assets	\$39,173,875,856	\$20,940,450,299	\$18,233,425,557
Liabilities	37,588,945,002	20,170,930,325	17,418,014,677
Capital and Surplus	1,584,930,854	769,519,974	815,410,880

The assistance of the following consulting firms is acknowledged:

INS Consultants, Inc., Actuarial Consultants
INS Services, Inc., Information Systems Consultants
Kawaller & Company, LLP, Investment Specialist

Respectfully submitted,



Peter Bliss, CFE
Examiner In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

Holding Company System

On January 4, 2005, a re-organization was completed under which most of ultimate Parent's asset management businesses in Canada and the United States were transferred to Sun Life Financial Corp., a newly incorporated wholly-owned subsidiary of Sun Life Financial Inc. After this reorganization, the operations remaining in the Parent Company consist primarily of Sun Life Financial's life, health and annuities businesses in Canada, most of Sun Life Financial's life and health businesses in the United States, and all of its operations in the United Kingdom and Asia. Sun Life Assurance Company of Canada continues to be a wholly-owned direct subsidiary of Sun Life Financial Inc. The Company is no longer a subsidiary of Sun Life Assurance Company of Canada, but continues to be an indirect wholly-owned subsidiary of Sun Life Financial Inc.

On November, 22, 2005, Sun Benefit Services Company, Inc. was dissolved and on May, 3, 2005, D2 Hawkeye was sold.